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UNCLAS SECTION 01 OF 02 KABUL 000108

SIPDIS

DEPT FOR SCA/FO, SCA/RA, AND SCA/A (DEUTSCH)
DEPT PASS AID/ANE, OPIC
DEPT PASS USTR FOR LILIENFELD AND KLEIN
DEPT PASS OPIC FOR ZAHNISER
DEPT PASS TDA FOR STEIN AND GREENIP
CENTCOM FOR CG CFC-A, CG CJTF-76, POLAD, JICENT
NSC FOR JWOOD
TREASURY FOR ABAUKOL, BDAHL, AND MNUGENT
MANILA PLEASE PASS ADB/USED
PARIS FOR USOECD/ENERGY ATTACHE
OSD FOR SHIVERS, SHINN
COMMERCE FOR DEES, CHOPPIN, AND FONOVICH
TOKYO ALSO FOR AID COUNSELOR AANENSON

SENSITIVE
SIPDIS

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TAGS: [EMIN](#) [EPET](#) [EFIN](#) [ETRD](#) [KPWR](#) [EAID](#) [AF](#) [CH](#)
SUBJECT: AF: Afghan Ministry of Mines: Big Plans for 2008.

Sensitive but Unclassified

11. (SBU) Summary: Minister of Mines Adel told EconOff he intends to shepherd several natural resource tenders, including oil, gas and iron ore deposits, through the bidding process this coming year. The Ministry intends to tender two blocks for commercial gas exploration and one for oil exploration at the Sheberghan field. These will be in addition to a current USAID project to rehabilitate existing gas wells at the Sheberghan site. Contract negotiations for the exploitation of the Aynak copper deposit are set to begin January 12 and expected to run three weeks. Railroad and power plant negotiations for the project will be separate.

12. (SBU) In the New Year, the Minister expects to oppose proposed Parliamentary amendments to the Minerals Law and oversee the final passage of the Hydrocarbons Law and its accompanying regulations. Adel is eager to obtain several international advisors who could help the ministry oversee the Aynak project and ensure the Chinese firm awarded the tender is adhering to its contractual obligations. The one impediment to his agenda is the lack of Ministry funds for the preparation of tender documents. Previous funding has come from the World Bank. The Minister is interested in exploring the possible availability of USG funds for tender document preparation. End Summary.

Aynak Copper: Contracts, Power Plants and Railroads

13. (SBU) On December 29, 2007, Minister of Mines Mohammad Ibrahim Adel told EconOff about his priorities for the Ministry in 2008. Since the official Aynak copper tender award to the China Metallurgical Group (CMG) in October 2007 (Reftel), Adel has been negotiating the "basis and protocols" under which contract negotiations will be held. These will begin January 12, 2008. Adel expects "ten to twenty days, no more" will be needed. Gustavson and Co., the Denver, Colorado firm retained by the World Bank to oversee the tender process, will serve as contract advisor to the Ministry of Mines. Negotiations for the construction of a coal-fired power plant at the project site and a railway to transport the copper ore will be held separately.

14. (SBU) Adel expects the rail road, which is part of the Aynak deal, to be built from either Hairatan on the border with Uzbekistan or Sher Khan Bandar (site of the Tajik bridge) on the Tajik border. The route would then lead south through Samangan or Kunduz province to Pul-e-Khumri, from there to Doshi, to Hajikak (west of Kabul in northern Wardak province, where iron ore deposits are located) and on to Kabul. It would then turn east towards Jalalabad and terminate at Torkham, on the border with Pakistan. He expects the Chinese to undertake a one to two year feasibility study, to be followed by seven or more years of actual construction. (We believe this is a very optimistic timeline.)

Potential Tenders Galore

15. (SBU) Minister Adel envisions three new natural resource tenders, at a minimum, for 2008. The Ministry has been working closely with the Norwegian foreign aid agency NORAD to prepare tender documents

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for the commercial exploration of two gas and one oil blocks in the Sheberghan area. These blocks are not in the area in which USAID currently has a project to rehabilitate existing Soviet-era oil wells. According to the Hydrocarbons Law, this exploration should be structured along a Production Sharing Agreement (PSA) model.

16. (SBU) After the successful award of the Aynak tender, Adel has now set his sights on the Hajikak (or Hajigak) iron ore deposit to the west of Kabul, on the border between Bamyan and Wardak provinces. Until the construction of a rail road makes the extraction of ore for export possible, Adel envisions the construction of an on-site smelter to process the ore for domestic use. If such a condition is written into a proposed tender, it may prove difficult to find interested bidders. Unlike Aynak and the Sheberghan fields, the Ministry of Mines does not currently have advisors to assist with the preparation of this tender. Adel bemoaned this fact and appealed for donor support for Hajikak, as well as his planned development of exploratory oil and gas blocks in the Afghan-Tajik Basin.

17. (SBU) The Afghan-Tajik basin has recently reappeared on Minister Adel's radar with the news that the Tajiks have contracted an internationally renowned firm to begin exploratory drilling in the basin on their side of the border. Adel wants Afghanistan to begin its own exploration as soon as possible to ensure the resources are exploited equitably. In order to proceed however, the Ministry of Mines needs to identify funds and an interested donor to help them prepare tender documents.

18. (SBU) Adel listed a number of other potential projects, including the extraction of palladium, platinum, gold, copper and lead. For the exploitation of these sites, as well as others with proven deposits of marble, lapis or other valuable minerals, the ministry continues to select the deposit site, advertise for the submission of mining proposals, select a winner, award a contract and then issue a mining license for the term of the contract. The Minister expects to see a 20 percent production increase in 2007 from these operations.

Legislative Prospects

19. (SBU) Despite progress on the passage of the Hydrocarbons Law in 2007, its accompanying regulations remain under review at the Ministry of Justice (MOJ). Adel expects the MOJ to pass them to the Cabinet for approval in the first three months of the year. According to the Minister, despite the fact that the Mineral Law has been passed, an amendment has been proposed in Parliament which would require both Cabinet and Parliamentary review and approval of any investment in mineral extraction/processing of USD 50 million or more. Adel is opposed to this amendment and intends to work to prevent its adoption in 2008.

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